# Commissioner's Monthly Column

# Global Insurance Market Outlook

# May 2015

Challenges to our state-based system of insurance regulation are nothing new. Over the past few years, however, the international discussion of insurance supervision has intensified. As you are well aware, insurance doesn't help you take on more risk in the hopes of growing your wealth. Instead it helps protect what you already have, so that when the next crisis hits—be it a global financial crisis like in 2008, or just your average fender bender—the promise of insurance is there to make you whole. That message of insurance as a source of stability is one that we must convey to those in Washington and abroad who want to regulate insurance as though it is a short-term, high risk enterprise.

Insurance is critical to the U.S. economy and plays an equally important role in global markets. The U.S. insurance market is the largest and most competitive in the world, with $1.8 trillion in premium volume and thousands of insurers writing policies. State insurance regulators supervise nearly a third of all global premiums, and taken individually, U.S. states make up more than 24 of the world's 50 largest insurance markets. With $26.2 billion in premium volume, Louisiana is the 48$^{th}$ largest insurance jurisdiction worldwide. To put that into a global perspective, Louisiana's market for insurance is approximately the same size as the markets in Mexico and Norway, and twice as large as the markets in Israel or Venezuela.

The international marketplace is important to our domestic insurers, but the international regulatory market poses real challenges for us. Our domestic colleagues must be able to compete with their colleagues in India, China and South America, and be empowered to face challenges and seize opportunities in these emerging markets. In its recently released *2015 Insurance Market Outlook*, the world's largest reinsurer, Munich Re, reported that its economists predict that emerging countries will have a much greater weight in the insurance market by 2025. They expect the share of the emerging Asian countries in global premium to increase from 10% today to 17.5% in 2025. Meanwhile, North America's share will be reduced from 28% today to 25% ten years from now.

Munich Re also forecasts shifts in global rankings of primary insurance markets. Today, the top five markets are the United States, Japan, the United Kingdom, China and France. Ten years ago, China was the tenth largest insurance market. By 2025 China is expected to jump from the fourth to the second largest market worldwide. The U.S. will remain in the top spot, but with China growing exponentially, our market size will be only twice as large as China in ten years, as opposed to three times as large as we are today.

Due to the finite amount of reinsurance available worldwide, there is always a fixed amount of insurance available. As the emerging markets grow and consume more and more of the insurance availability, our companies need to be competitive in those emerging markets in order to protect their profitability—and their ability to provide affordable insurance to policyholders both here and abroad.

With the critical role of insurance in the global economy, there is a need for greater understanding here in the United States with regard to how pressures internationally could impact the U.S. system. The biggest threat the industry faces today is the threat of a dual system of regulation being imposed on them by state as well as international regulators. International organizations based in Basel, Switzerland, such as the Financial Stability Board and the International Association of Insurance Supervisors, are moving to establish global standards that in some cases are not consistent with the current U.S. financial regulatory system.

These global standards are a solution in search of a problem for U.S. companies, and may not only conflict with existing state and U.S. requirements, but could also jeopardize consumer protections. We have been very successful with our Risk Based Capital system while those in Europe would prefer to take us to a bank-centric system that is detrimental to domestic insurers because of the cost of compliance under two differing solvency regimes. Adding unwarranted layers of regulation might stifle innovation or create unnecessary burdens on companies, resulting in added costs that would ultimately be borne by consumers.

As discussions move forward regarding the development of domestic and global capital rules, state insurance regulators continue to oppose a one-size-fits-all bank-centric set of regulations for insurers, and instead focus on the importance of company and product specific analysis and examination. While insurer capital requirements are important, such requirements are not a substitute for the other tools in the regulatory tool box. If imposed incorrectly, they can be unnecessarily onerous to the company and ultimately harmful to the policyholder. We are concerned that taking a uniform regulatory approach that treats insurers more like banks may actually encourage new risk-taking in the insurance industry.

For more than 150 years, our state-based system of insurance regulation has worked effectively, protecting consumers and fostering competitive markets. When you look at our track record, our state-based system of regulation helped provide stable and competitive markets that enabled the U.S. insurance sector to navigate the 2008 financial crisis far more effectively than the rest of the financial sector. I encourage you to stay abreast of developments on these challenges to our time-tested standards and I look forward to continuing to engage with you on ways to strengthen open and competitive markets while protecting our local interests.